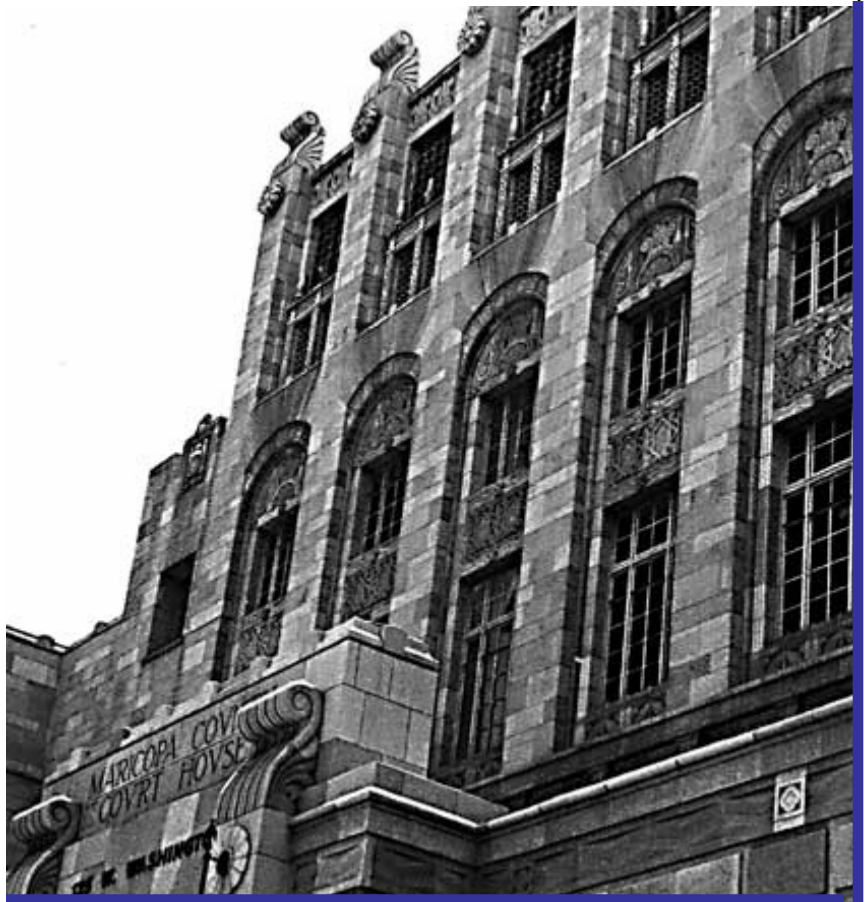




Internal Audit Department

Financial Condition Report Fiscal Year 2004

July 2005



County Auditor

Ross L. Tate, CMA, CIA, CGFM

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Maricopa County

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July 6, 2005

Max W. Wilson, Chairman, Board of Supervisors
Fulton Brock, Supervisor, District I
Don Stapley, Supervisor, District II
Andrew Kunasek, Supervisor, District III
Mary Rose Wilcox, Supervisor, District V

We have completed the FY 2004 edition of the Maricopa County Financial Condition Report.

This year we highlight the financial strength of the County's General Fund, Transportation Fund, and Flood Control District within the context of exceptional population growth. Maricopa County has accommodated this growth while maintaining very low levels of debt. As noted in previous Financial Condition Report issues, the health delivery system and AHCCCS health plans pose significant offsets to otherwise positive trends in the County.

Evaluating a jurisdiction's financial condition is a complex process, especially in a dynamic economy. Many variables are difficult to isolate and quantify. We believe, however, that a routine assessment of the past provides insight for the future, allowing us to make informed decisions in critical times. Additionally, a comparison to benchmarks broadens our perspective. This type of financial analysis alerts County officials to potential concerns and facilitates the Board's governance of Maricopa County.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

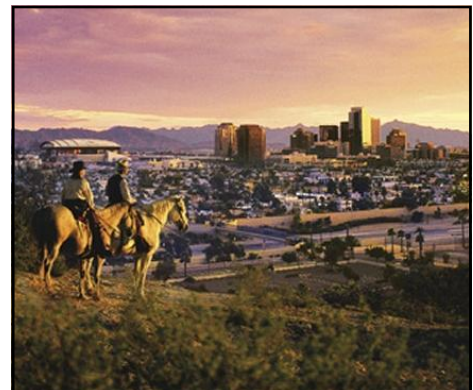
Ross L. Tate
County Auditor

Maricopa County Basics

- Population: **3.5 Million** — 4th largest in nation
July 2004
- One-Year Population Increase : **112 Thousand** — Fastest numerical growth in nation
July 2003—July 2004
- Population Increase Since 2000 Census— **429 Thousand**
April 2000—July 2004
- Area: **9,222 Square Miles**— 20th largest in nation
- Cash and Investments Managed by County Treasurer: **\$2.5 Billion**
April 2005
- General Fund Unreserved Balance: **\$318 Million**
June 2004
- Healthy Key Financial Indicators—**General Fund, Transportation Fund, Flood Control Fund**
Multi-Year Trend
- Unhealthy Key Financial Indicators — **Maricopa Integrated Health Care System**
Multi-Year Trend
- Medical Center Transition — **Medical Center Transferred to Special Health Care District**
January 2005
- Health Plans Transition— **Transfer to Special Health Care District or Closure**
Planned FY 2006

“Maricopa County is balancing the challenges of rapid population growth and new mandates for service with careful allocation of revenues to meet public service needs. The County does so on the basis of a Five-Year Plan.”

David Smith, County Manager



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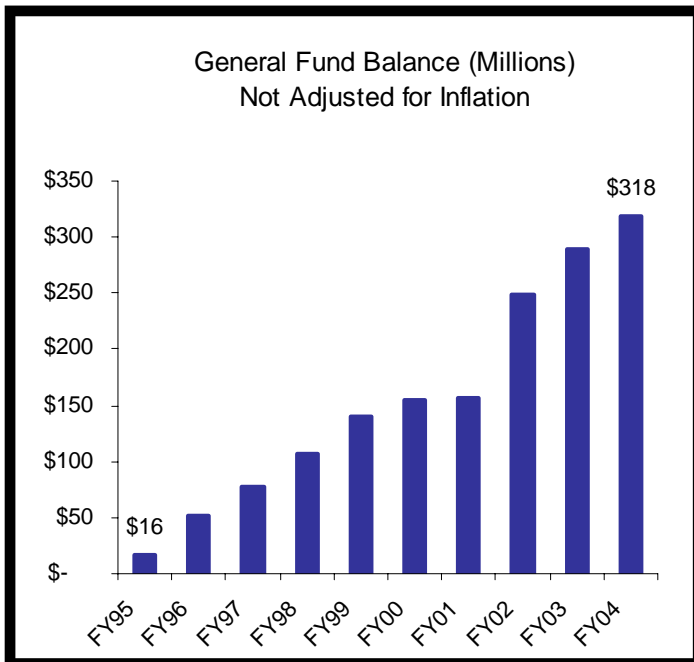
General Fund Key Financial Indicators

Maricopa County



The General Fund is the County's primary operating fund. Conservative fiscal policies led to strong financial positions in equity, liquidity (ability to pay current obligations), and general long term debt. The following pages demonstrate strong General Fund positions. However, health system financial problems pose a potential drain on General Fund resources.

Several years ago, symptoms of health system financial problems began to surface. The first symptom noted was a steep decline in health system cash balances. Until a complete analysis of health system finances and operations could be achieved, County administrators scaled back on large capital projects, including a new administration building, in order to reserve General Fund resources for potential health system shortfalls.

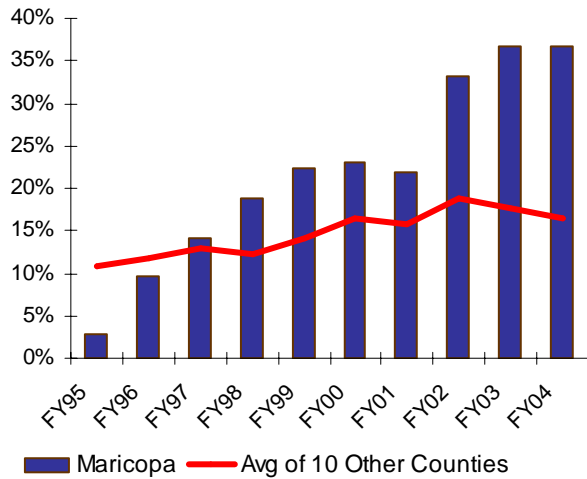


Conservative budget strategies have resulted in healthy General Fund balance increases. The fund balance did not grow in FY 2001 because the County set money aside to fully fund several construction projects.

The fund balance rose sharply in FY 2002 because additional money budgeted to fund construction projects was kept in the General Fund. County management determined that such funds may be needed for worsening economic conditions, potential cost shifting by the state, and deteriorating financial trends in the County's healthcare system.

Comparisons with Other Counties

Benchmark Counties:
General Fund Balance
as a Percent of Revenues



Since FY 1996, Maricopa's General Fund has achieved a healthy fund balance in relation to its revenues.

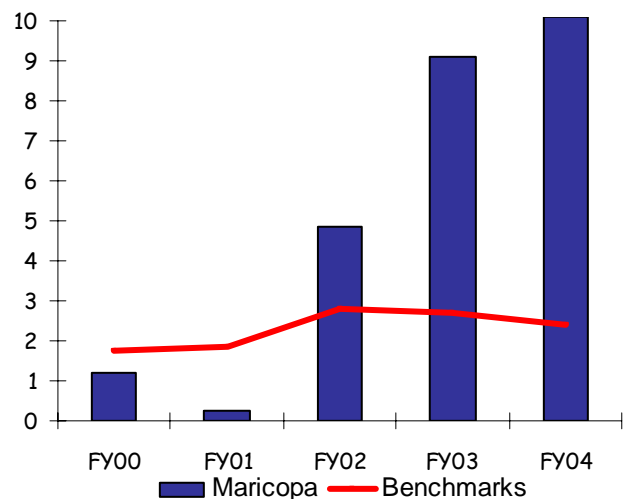
Since FY 1997, Maricopa has significantly surpassed the average of ten benchmark counties for this financial measure.

Strong General Fund equity will serve the County's citizens during current and future financial challenges.

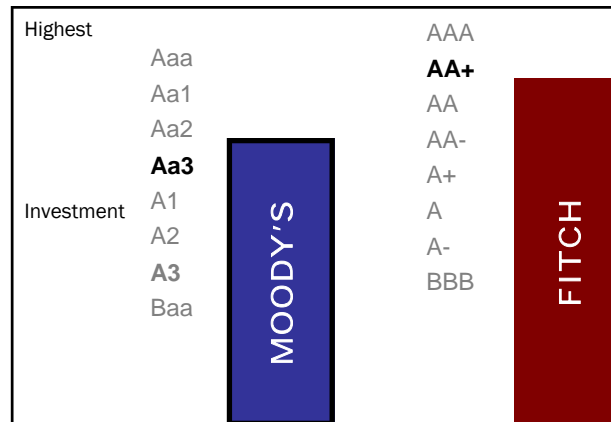
Although the General Fund shows a strong liquidity ratio (ability to pay current obligations, measured by fund assets divided by fund liabilities), the General Fund may face fiscal challenges from troubled health system financial conditions.

Maricopa County's conservative fiscal policy places it in a better position to meet these challenges. These policies contributed to a significant turnaround from troubled financial conditions in FY01 to the current position of strength. Maricopa County's strong liquidity far exceeds the benchmark counties.

General Fund Liquidity Ratio
(Excluding Due From/To Other Funds)



General Obligation Bond Ratings are Strong

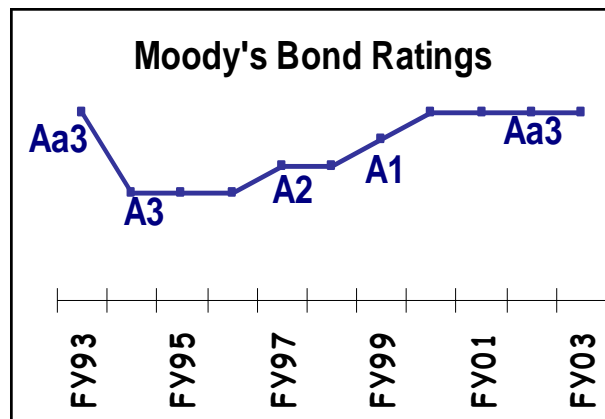


Financial Strength is Reflected in the County's General Obligation Bond Ratings:

The County has fully rebounded from a financial decline in the early 1990's by restructuring its finances. Recent ratings by Moody's and Fitch are considered investment grade.

Moody's — Aa3

The chart at the top of the page shows that Maricopa County's long-term bonds, rated **Aa3** by Moody's, are considered high-grade bonds. The graph below shows that Maricopa County's trend since June 1994 has been one of improving ratings. In announcing its rating upgrade, Moody's referred to improvement in the County's financial condition, conservative fiscal strategies, and the County's low debt position.



Fitch — AA+

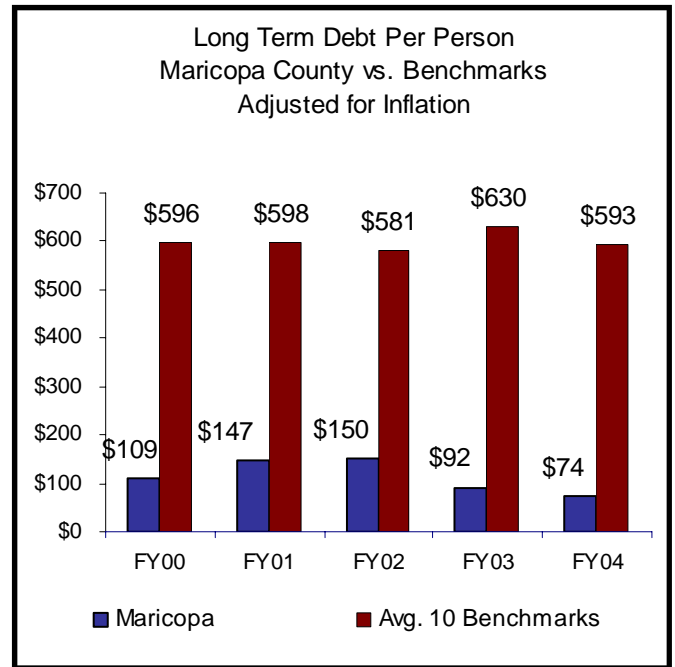
In November 2003, Fitch upgraded the County's general obligation bond rating from AA to AA+. The upgrade was based in part on the planned transfer of the healthcare delivery system to a separate voter-approved health district with its own property tax levy. Fitch also viewed favorably the County's successful fiscal reforms, modest debt profile, and continued economic diversification.

Low Long Term Debt

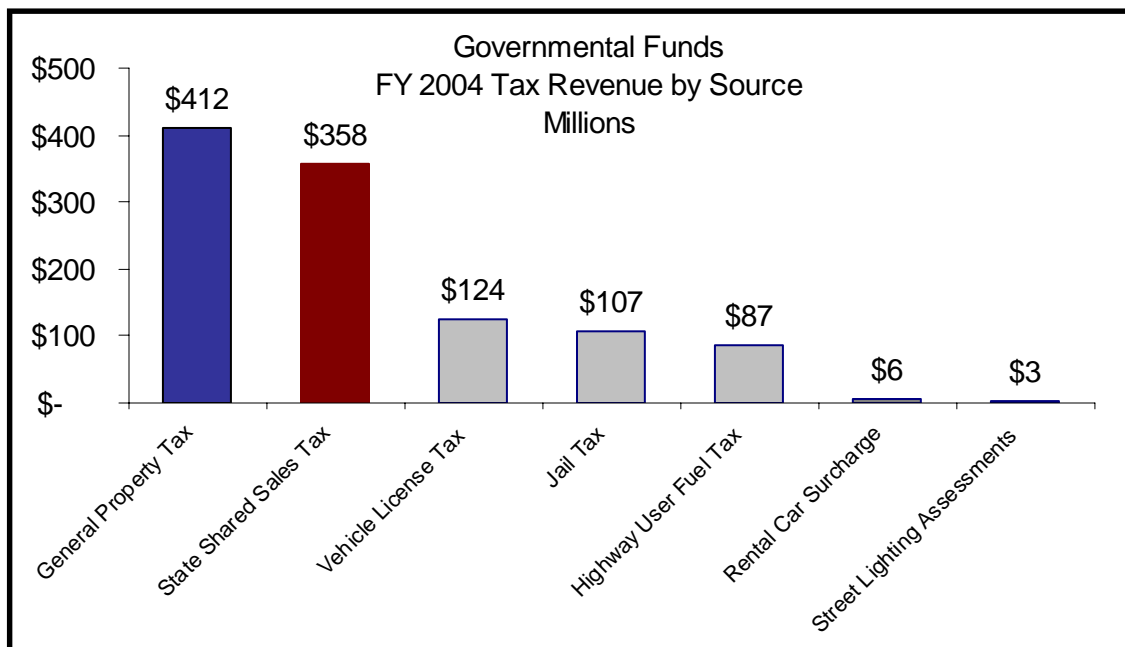
Maricopa County has very low debt levels compared with the average of benchmark counties.

Maricopa's low debt level has resulted from a conservative, "pay as you go" approach to financing new capital assets/projects.

FY 2004 is the last year of the County's 1986 voter-approved general obligation debt financing for capital projects. As of July 2005, Maricopa County will be considered free of general obligation

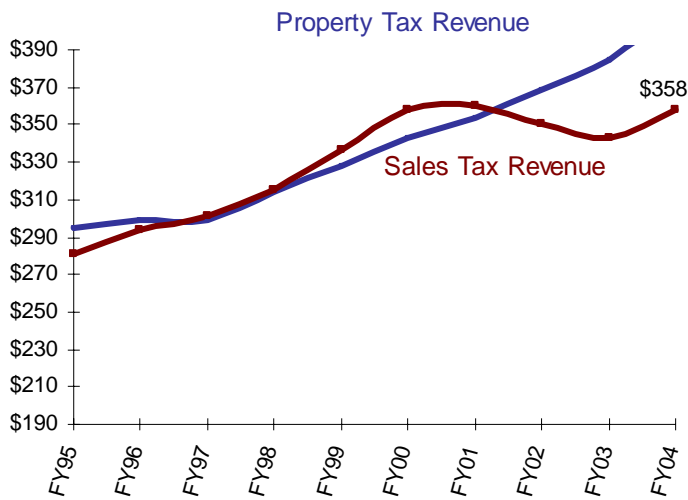


Tax Revenues



General Fund Tax Revenues

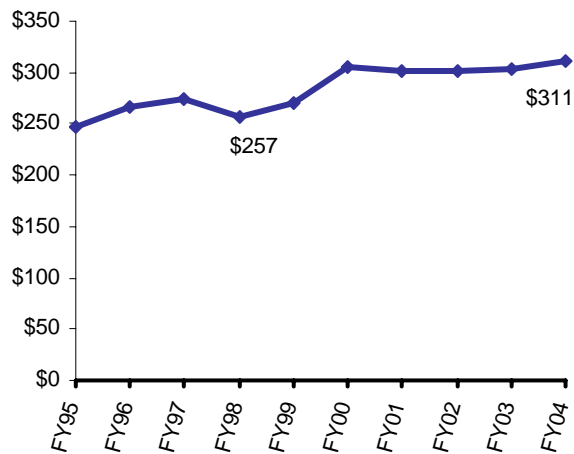
Property vs. Sales Tax Revenues
Adjusted for Inflation (Millions)



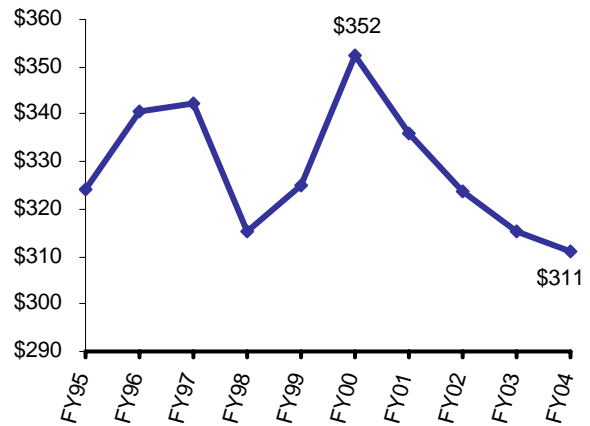
Although sales tax revenues have become relatively more important in recent years, the upward trend of inflation-adjusted sales tax reversed in FY 2002.

As Maricopa County has increased its reliance on sales taxes to support services, it has been more directly affected by economic trends.

Governmental Funds Tax Revenues
Per Person
Not Adjusted for Inflation



Governmental Funds Tax Revenues
Per Person
Adjusted for Inflation



General Government revenues have not kept up with population growth and inflation. Even though governmental revenues may increase in dollars, revenues (adjusted for inflation and population) actually declined. However, the County fund balance is healthy, which indicates that although revenues are down, spending is under control.

Maricopa Integrated Health System

At the end of FY 2004, Maricopa Integrated Health System included the following:

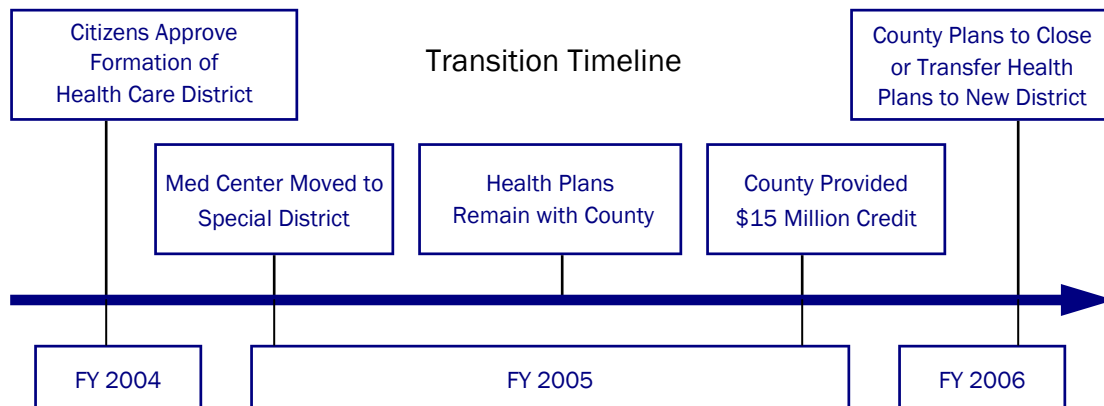
- Maricopa Medical Center (hospital / delivery system)
- Maricopa Health Plan (ambulatory managed care)
- Maricopa Long - Term Care Program (MLTCP / ALTCS)
- Health Select (managed employee care)
- Senior Select (Medicare plan)

Because final FY 2004 financial statements for the health plans are not expected to be completed by the end of FY 2005 (June 30), this section is limited to:

- Describing general events from FY 2004 and subsequent periods
- Reporting cash trends for the delivery system and health plans derived from Maricopa County Treasurer records

General Events:

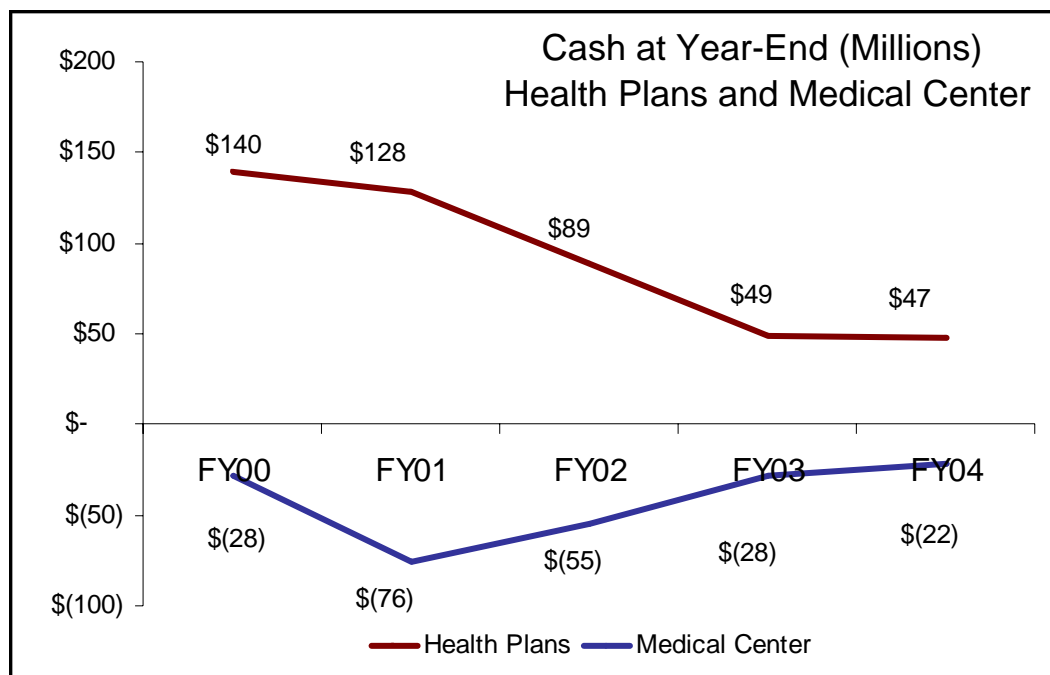
In November 2003, Maricopa County voters authorized the formation of a separate health care district. In January 2005, the Medical Center moved to the new Special Health Care District. The health plans remained with Maricopa County in order to resolve significant financial and information system problems. The County plans to close or transfer the health plans to the Special Health Care District in FY2006.



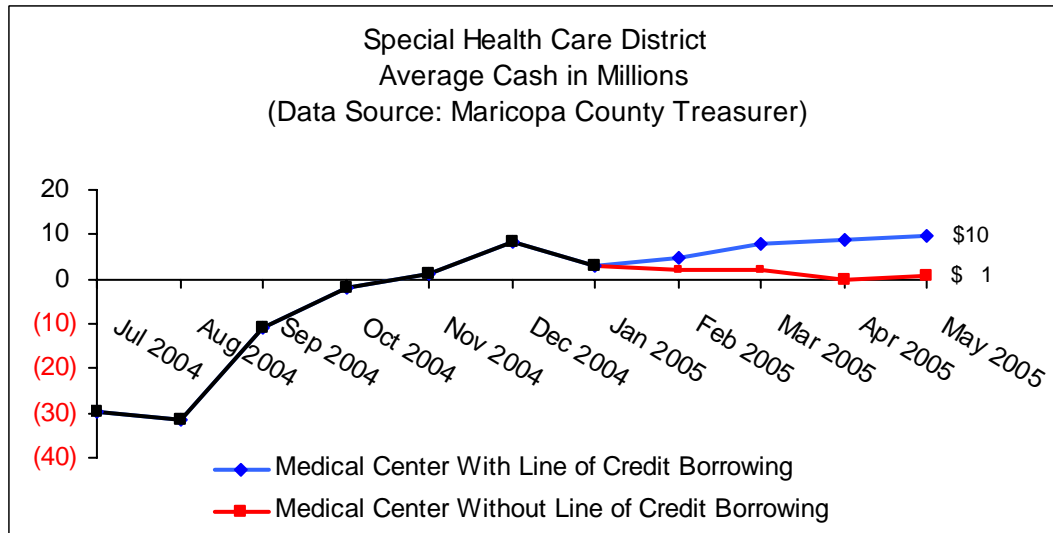
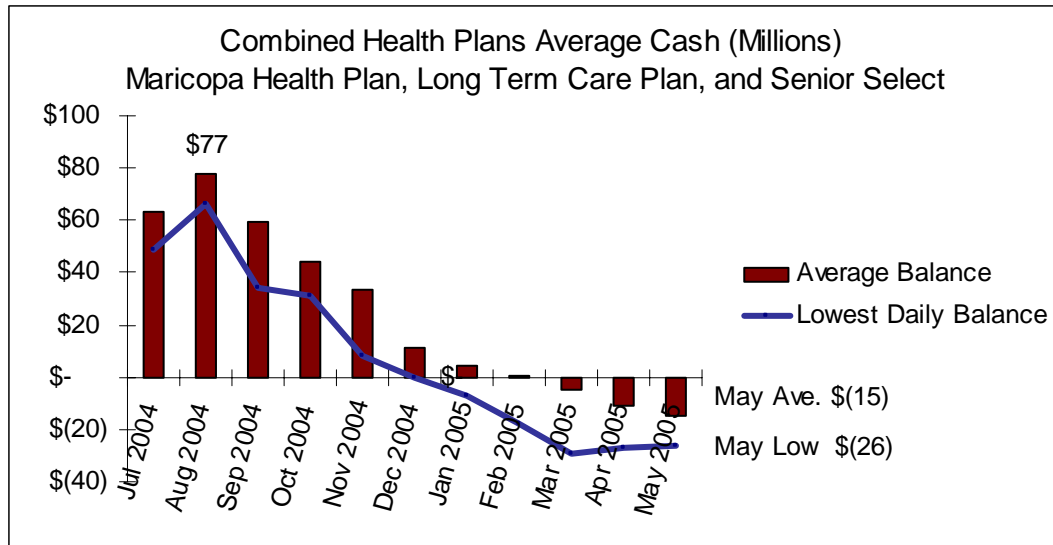
Health System Cash



- In January 2005, the General Fund extended a \$15 million credit line to the new Special Health Care District.
- In May 2005, the General Fund extended the \$15 million loan for a period of 10 years, interest-free for the first five years.
- Declining health plans' cash in FY 2004 and subsequent periods is attributed to settlements with the Medical Center and with claims payment systems that led to advance payments and potential duplicate payments to health care providers.



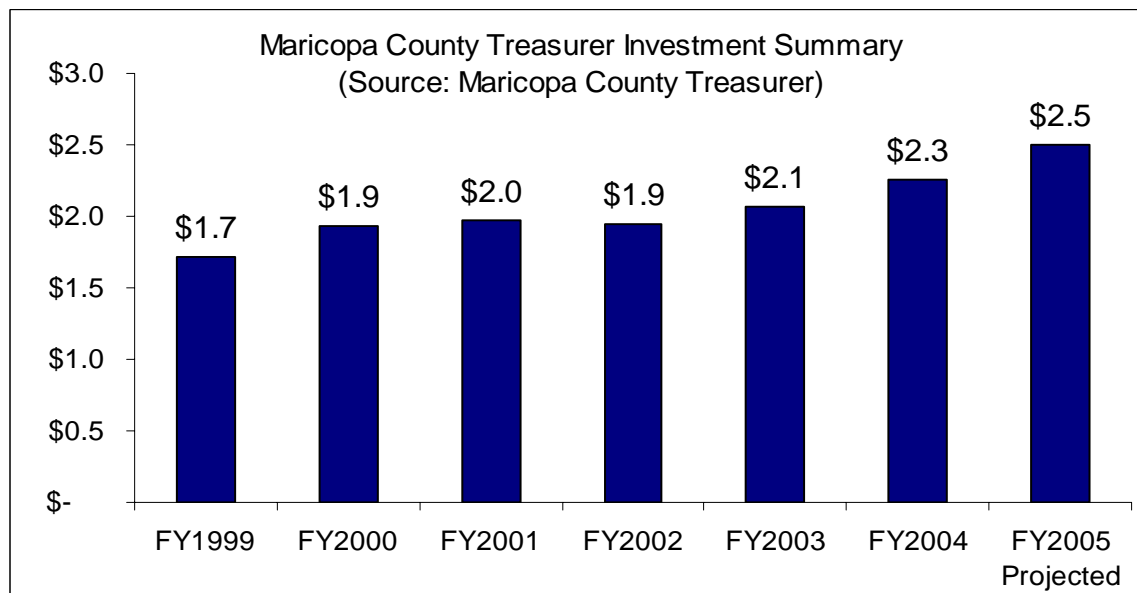
FY05 Period Health System Cash



Maricopa County closed the Senior Select plan in FY2005 and plans to close or transfer the Maricopa Health Plan and Long Term Care Plan to the Special Health Care District by September 2006.

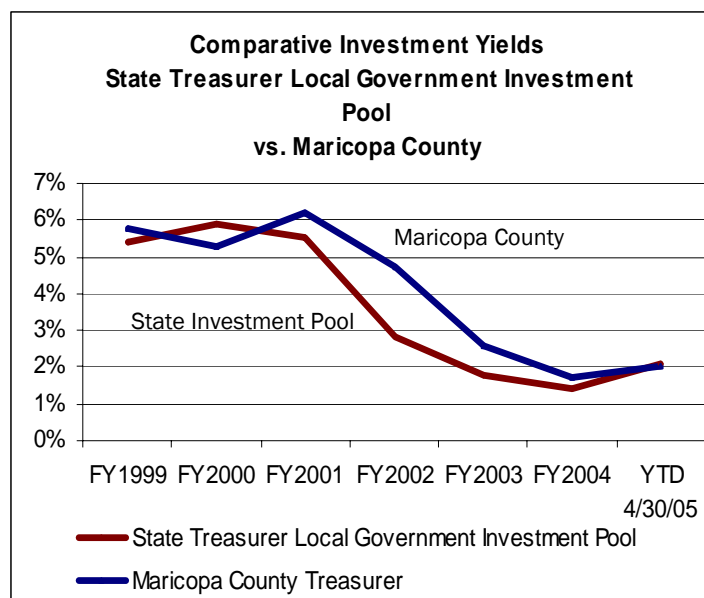
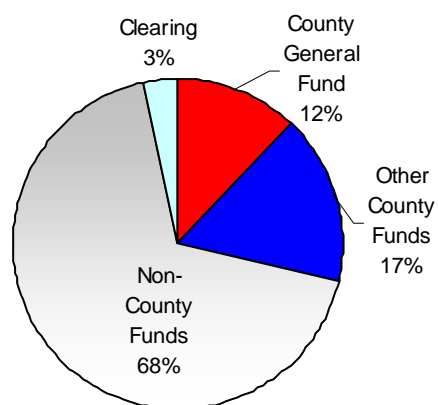
In June 30, 2005, Maricopa County plans to transfer approximately \$26 million from its General Fund to eliminate May 2005 cash deficits of the Maricopa Health Plan, Long Term Care and Senior Select health plans. Final accountings of the health plans are pending the completion of annual financial audits, including FY2004 and applicable future periods. Future cash transfers to the health plans may occur until all obligations are settled.

\$2.5 Billion Managed by County Treasurer

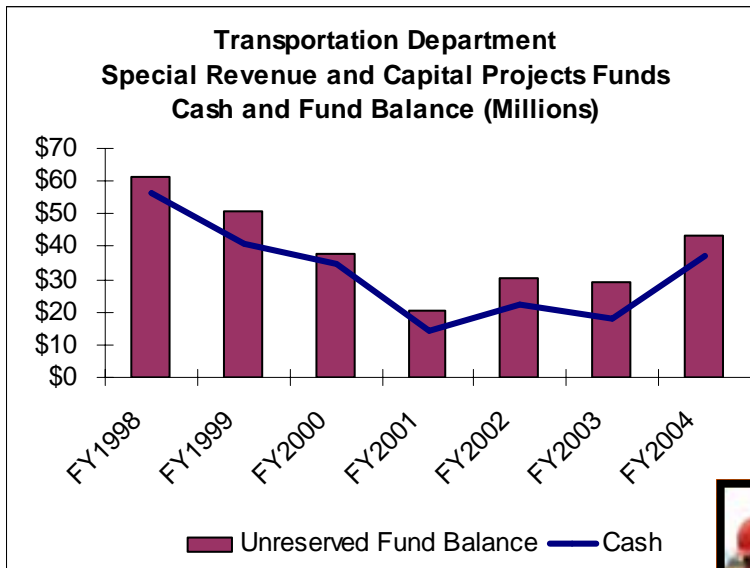


The County Treasurer pools deposits of the County, school districts, and special districts. Cash not required for liquidity is invested in accordance with state law and under a strategy that gives highest priority to 1) safety of principal, 2) sufficient liquidity to meet the needs of the County and its subdivisions, and 3) return on investment. Investments may include U.S. Treasury Bills and Bonds, U. S. Agency Notes and Bonds, Commercial Paper, Corporate Bonds, and Repurchase Agreements.

Who Does the Money Belong to?
(April 30,2005)

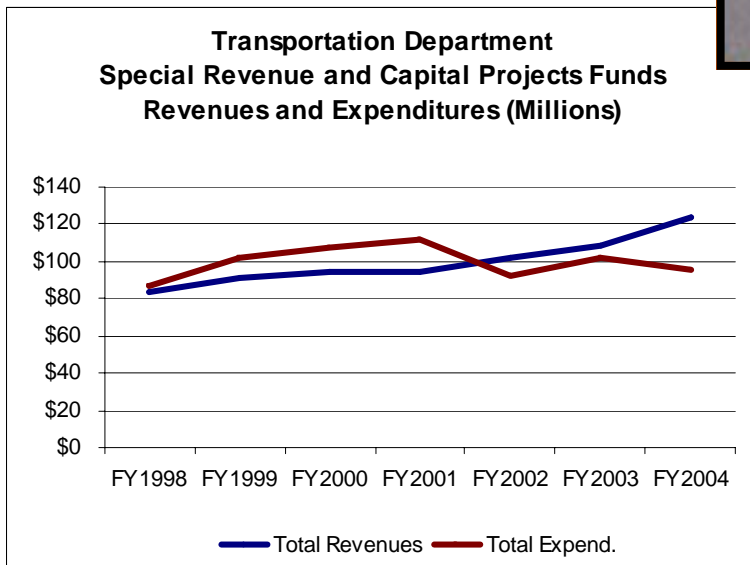


Transportation Department



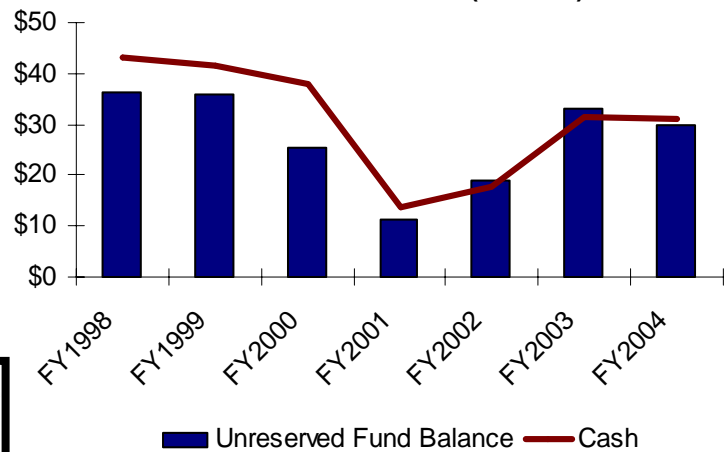
State shared Highway Users Revenue (fuel tax) is the primary revenue source for the Transportation Fund. Other revenues include state shared Vehicle License Tax and other intergovernmental revenues.

The Arizona Constitution and statutes restrict how Transportation funds may be spent. Expenditure levels may vary from year to year based upon the timing of specific capital projects.



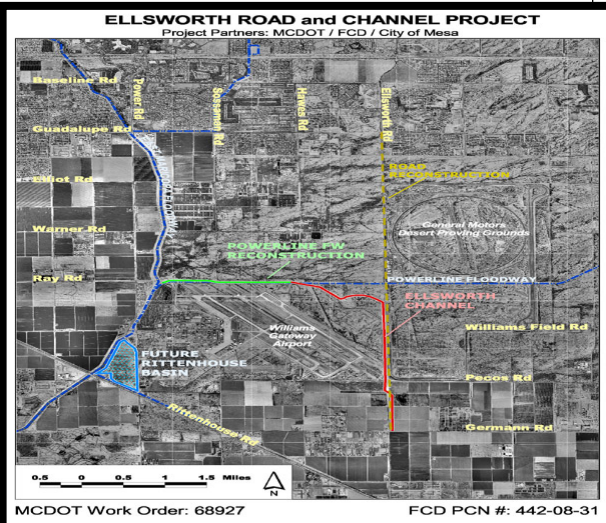
Flood Control District

**Flood Control District
Special Revenue and Capital Projects Funds
Cash and Fund Balance (Millions)**

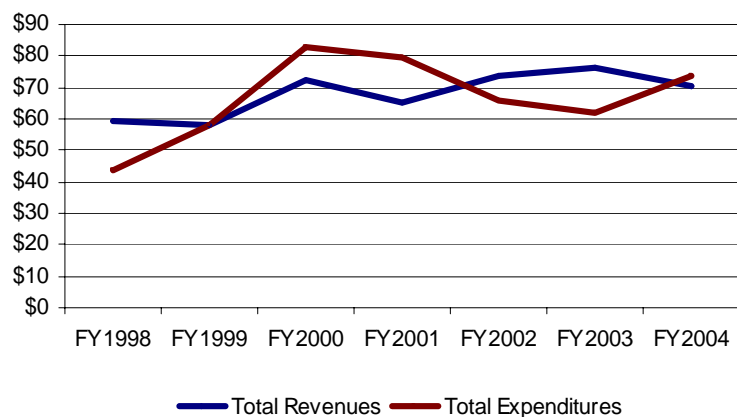


Flood Control's primary funding comes from property taxes. Another significant revenue source comes from intergovernmental agreements with cities and towns.

The District's mission is to provide flood hazard identification, regulation, remediation, and education to Maricopa County citizens. Expenditures may vary from year to year based upon the timing of specific capital projects.



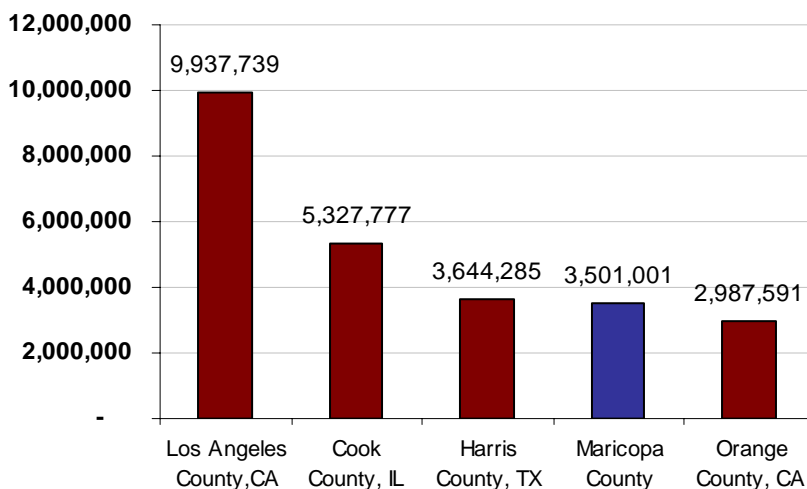
**Flood Control District
Special Revenue and Capital Projects Funds
Revenues and Expenditures (Millions)**



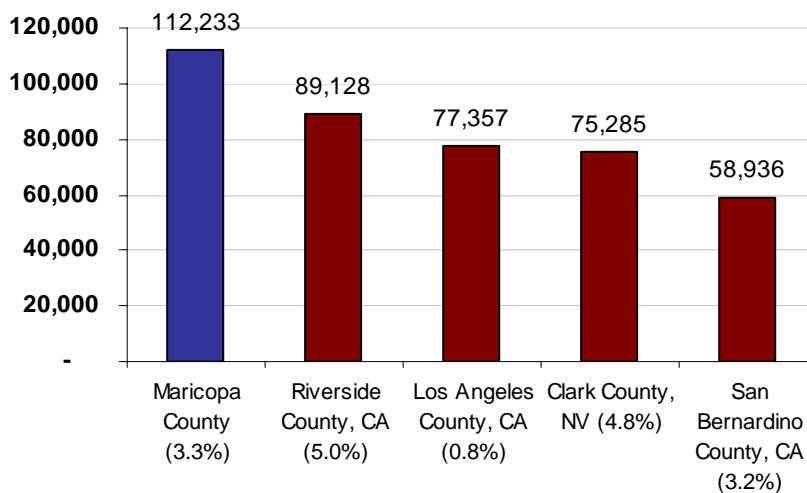
Population & Growth 2003 to 2004

From 2003 to 2004, Maricopa County's population increased more than any other county in the nation, and is currently the fourth most populous county.

**Top Five Counties Total Population
July 2004 Per U.S. Census Bureau**



**Top Five Counties Numerical Growth
July 2003 to July 2004 Per U.S. Census Bureau
(Growth Rate Noted)**



Report Methodology

Definition

Financial Condition is defined as a local government's ability to finance services on a continuing basis. A county in good financial condition can sustain existing services to the public, withstand economic slumps, and meet the demands of changing service needs.

Objectives, Scope, and Methodology

The objective of this report is to evaluate Maricopa County's financial condition using key financial indicators. Indicators were selected from authoritative sources on evaluating governmental entity financial condition and judged to be the most indicative of a county's overall financial health.

Our primary information sources were published Comprehensive Annual Financial Reports (CAFR) and Maricopa County Treasurer cash reports.

Ten benchmark counties' and Maricopa County's audited financial statements were used as primary sources for comparing selected General Fund trends. The benchmark counties are:

	<u>Population</u>	<u>Major Metro Area</u>
• Clark	1.6 million	Las Vegas, NV
• Harris	3.6	Houston, TX
• King	1.8	Seattle, WA
• Los Angeles	9.9	Los Angeles, CA
• Multnomah	0.7	Portland, OR
• Orange	3.0	Santa Ana / Anaheim, CA
• Pima	0.9	Tucson, AZ
• Salt Lake	0.9	Salt Lake City, UT
• San Diego	2.9	San Diego, CA
• Santa Clara	1.7	San Jose, CA

Other sources include the Governmental Accounting Standards Board, the International City/County Managers Association, ASU Center for Business Research, Arizona Department of Economic Security Research Administration, Arizona Department of Revenue Econometrics Unit, Maricopa County's Strategic Plans (budgetary documents), and Auditor General Reports. Trend analysis is used in this report. Trend analysis involves examining financial indicators' historical data over several years. Adjustments for inflation were made according to the "U.S. Consumer Price Index—All Items."



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